

# **Commonwealth of Kentucky Personnel Cabinet**

**Blue Ribbon Panel on Public Employee Health  
Benefits**

**Green Team**

**May 25, 2005**

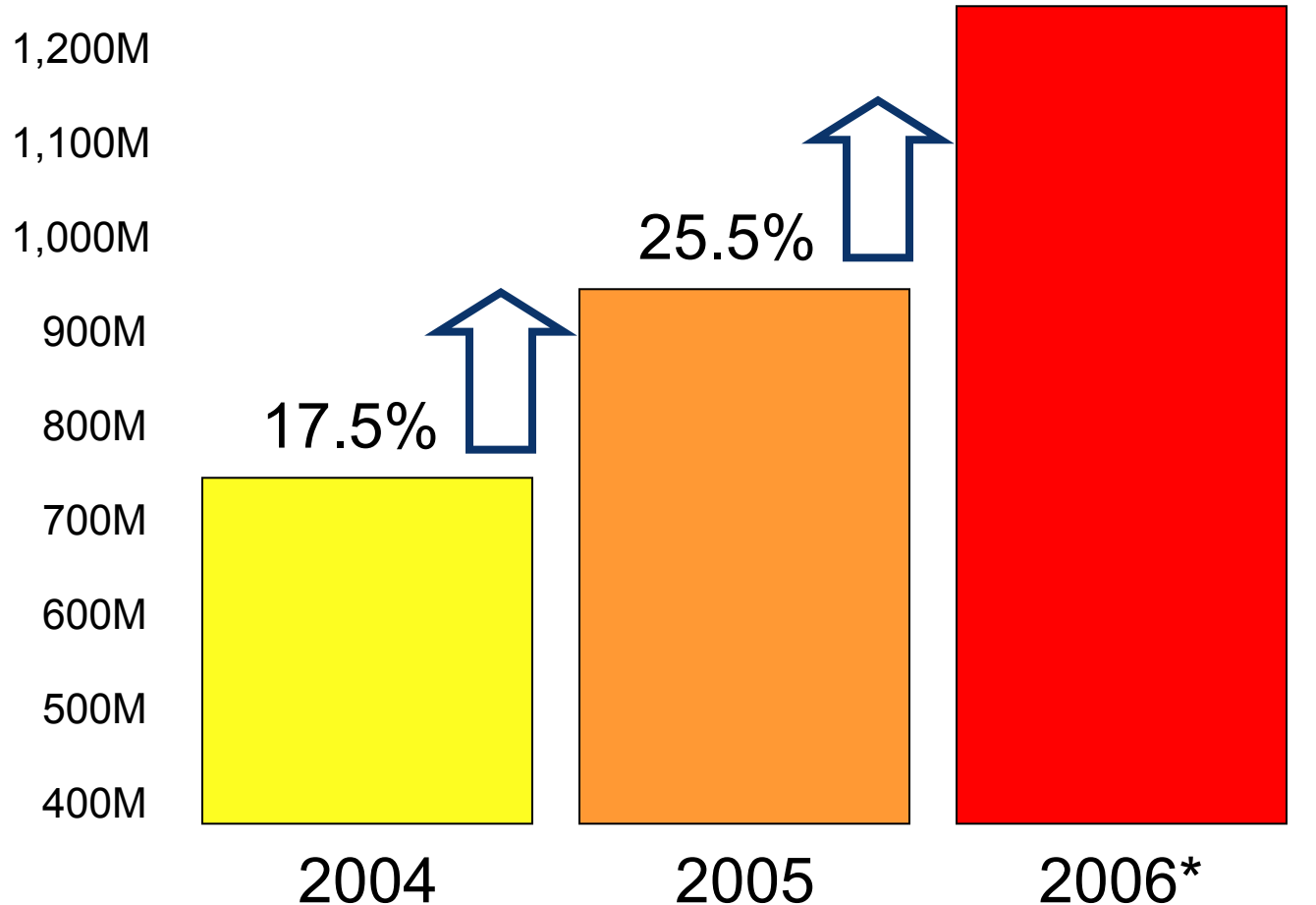


# Discussion Items

- Projected 2006 Plan Costs, No Change in Benefits
- Overview of Current Benefit Provisions
- State Comparisons
- Employer Strategies

# Estimated 2006 Plan Costs

## *Total Plan Medical & Prescription Drug Fully-Insured Premiums*



36.6%

\*Estimate

# Detail of Per Employee Per Month Premiums

	2004 <sup>1</sup> Fully-Insured	2005 <sup>2</sup> Fully-Insured	2006 <sup>3</sup> Fully-Insured	2006 <sup>3</sup> Self-Insured
<b>Avg PEPM Premiums – Total</b>	<b>\$419</b>	<b>\$526</b>	<b>\$718</b>	<b>\$680</b>
<b>Avg PEPM Premiums – KY</b>	<b>\$293</b>	<b>\$445</b>	<b>\$608</b>	
<b>Avg PEPM Premiums – EE</b>	<b>\$126</b>	<b>\$81</b>	<b>\$110</b>	
<b>% Increase</b>		<b>25.5%</b>	<b>36.6%</b>	<b>29.3%</b>
<b>Avg PEPM Claims – Total</b>	<b>\$439</b>			
<b>Loss Ratio (Actual)</b>	<b>104.8%</b>			
<b>Loss Ratio (Desired)</b>	<b>85.0%</b>			

1 Figures reflect Commonwealth Budget Information; not audited by PwC

2 Figures reflect Commonwealth Budget Information; audited by PwC

3 Figures reflect trended estimates by PwC, assume no change in plan design or healthcare strategy



Preliminary Draft Document – Not Subject To Disclosure



# Data and Assumptions

- 2004 calculations based on CY2004 Medical/Rx fully-insured premium rates and average annual enrollment
- 2005 calculations based on CY2005 Medical/Rx fully-insured premium rates and April 2005 enrollment
- 2006 calculations based on CY2004 Medical/Rx claims experience and average annual enrollment
  - Assumed annual Medical trend -- 15.5%
  - Assumed annual Rx trend -- 15.7%
  - Inclusive of 100% deficit recovery for under-priced 2005 fully-insured rates

# Benefit Provisions - Summary

## Benefits

2005 Benefit Comparison	Commonwealth Preferred		Commonwealth Essential		Commonwealth Premium	
	In-Network	Out-of-Network	In-Network	Out-of-Network	In-Network	Out-of-Network
<b>Annual Deductible</b>	Single: \$400 Family: \$800	Single: \$800 Family: \$1,600	Single: \$750 Family: \$1,500	Single: \$1,500 Family: \$3,000	Single: \$250 Family: \$500	Single: \$500 Family: \$1,000
<b>Maximum out-of-pocket for Covered Expenses</b> (including deductible) <i>Co-insurance for prescription drugs and co-payments for emergency room visits do not apply to the out-of-pocket limits. All others apply.</i>	Single: \$2,000 Family: \$4,000	Single: \$4,000 Family: \$8,000	Single: \$3,500 Family: \$7,000	Single: \$7,000 Family: \$14,000	Single: \$1,000 Family: \$2,000	Single: \$2,000 Family: \$4,000
<b>Lifetime Maximum Benefit</b>	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
<b>In Hospital Care</b> <i>Provider services, inpatient care, semi-private room, transplant coverage (kidney, cornea, bone marrow, heart, liver, lung, heart/lung, and pancreas), mental health and substance abuse.</i>	20%*	40%*	25%*	50%*	10%*	30%*
<b>Outpatient Services</b>						
▪ <b>Physician or Mental Health Provider</b> – Office visit, diagnostic and allergy testing, allergy serum and injections, diabetes education and therapy, injections, lab fees, x-rays, and mental health/substance abuse services	20%*	40%*	25%*	50%*	10%*	30%*
▪ <b>Routine physicals, and certain early detection tests.</b> Well child care and immunizations. Age and periodicity limits apply.	100% up to a \$200 maximum per person per year plus 100% of eligible immunizations		100% up to a \$200 maximum per person per year plus 100% of eligible immunizations		100% up to a \$200 maximum per person per year plus 100% of eligible immunizations	
▪ <b>Diagnostic Testing</b> - laboratory, x-ray and other radiology/imaging services, ultrasound and approved machine testing services performed for the purpose of diagnosing an illness or injury.	20%*	40%*	25%*	50%*	10%*	30%*
▪ <b>Ambulatory Hospital and Outpatient Surgery</b> – outpatient surgery services, outpatient surgery physician fees, radiation therapy, renal dialysis, chemotherapy, and other outpatient services not listed under diagnostic testing performed in a hospital or other ambulatory center (other than a physician's office).	20%*	40%*	25%*	50%*	10%*	30%*
<b>Emergency Services</b>						
▪ <b>Hospital Emergency Room</b> – \$50 co-pay per visit is waived if admitted (hospital co-insurance still applies)	\$50 copay then 20%*	\$50 copay then 40%*	\$50 copay then 25%*	\$50 copay then 50%*	\$50 copay then 10%*	\$50 copay then 30%*
▪ <b>Emergency Room Physician</b>	20%*	40%*	25%*	50%*	10%*	30%*
▪ <b>Urgent Care Center</b> (not hospital emergency room)	20%*	40%*	25%*	50%*	10%*	30%*
▪ <b>Ambulance</b>	20%*	40%*	25%*	50%*	10%*	30%*

# Other Health & Welfare Benefits

- Basic Life & AD&D
- Optional Life & AD&D
- Dependent Life
- Flexible Spending Accounts
  - Health Care Reimbursement Account
  - Dependent Care Reimbursement Account
- KEAP (Employee Assistance Program)



# Voluntary Benefits

- Dental
- Vision
- Short Term Disability (STD)
- Long Term Disability (LTD)
- Long Term Care (LTC)
- Supplemental Life Insurance
- Other



# State Comparisons

## Appendix H Employee-Employer Cost Share Strategies

State/Plan	Description of Employee-Employer Cost Share Strategy
<b>Georgia SHBP</b>	The Plan seeks to maintain a 25% employee and 75% employer contribution proportion in aggregate; however, the Plan sets different employee/employer contribution proportions for its different coverage options and tiers.
<b>Georgia BORHP</b>	Employers contribute 75% of the cost of single and family coverage.
<b>Alabama</b>	Employers contribute the full cost of single coverage. Employees pay an employee premium for family coverage (\$164 per month for fiscal year 2004). Employers subsidize the remaining cost of family coverage.
<b>Mississippi</b>	Employers contribute the full cost of single coverage. Employees pay the additional cost for dependent coverage. (Employer contribution rate for fiscal year 2004 – \$228 per month.)
<b>North Carolina</b>	Employers contribute the full cost of single coverage. Employees pay the additional cost for dependent coverage. (Employer contribution rate for fiscal year 2004 - \$285 per month.)
<b>Kentucky</b>	Employers contribute an amount equal to the lowest cost of single coverage in each county (which ranged from \$286.16 to \$312.00 per month in fiscal year 2004). The lower-cost plan (with a cost of \$286.16) is available in 100 out of the 120 counties in the state. Employees pay the additional cost for dependent coverage.
<b>Florida</b>	Employers contribute approximately 86% of the cost of single coverage and approximately 77% of the cost of family coverage.
<b>Louisiana</b>	Employers contribute 75% of the cost of single coverage and 50% of the additional cost of coverage for dependents.
<b>Arkansas</b>	Employer contribution is based on a formula developed by the plan's actuary that provides for a larger employer contribution towards single coverage and less contribution towards dependent coverage. For fiscal year 2004, the employer contribution rate for the state's largest plan (an HMO) was approximately 79% for single coverage and approximately 64% for family coverage.
<b>South Carolina</b>	Employer contribution is determined by the Legislature each year. For fiscal year 2004 the employer contribution rate for the state's largest plan (a PPO) was 74.4% for single coverage and 66.5% for family coverage.
<b>Tennessee</b>	Employers contribute 80% of the cost of single and family coverage.
Source: SHBP Records and Evaluation Team Survey of Southeastern States.	

# State Cost Management Programs

Description of Cost Management Program	% of States That Reported Using
<b>Inpatient Pre-certification</b> - Members are required to obtain advance approval for hospital admissions in order to ensure that the planned treatment is medically necessary.	81%
<b>Disease Management Programs</b> - Identify and assist patients with (or at risk of acquiring) chronic medical conditions in order to avoid or minimize costly complications.	75%
<b>Prescription Drug Prior Authorization</b> - Requires members to obtain advance approval before obtaining certain drugs in order ensure that these drugs are not prescribed inappropriately.	72%
<b>Claims Payer Audits</b> - Audits conducted by independent parties to assess the accuracy of claims processing services provided by contracted entities.	69%
<b>Outpatient Pre-certification</b> - Requires pre-certification for procedures that may be performed on an outpatient basis.	50%
<b>Hospital Bill Audits</b> - Audits by independent parties of hospital bills to identify errors and recover excess payments	50%
<b>Prescription Drug Clinical Intervention</b> - A pharmacist's intervention to encourage members to switch a prescription to a generic substitute OR an intervention to prevent members from taking drug combinations that could result in dangerous interactions.	47%
<b>Utilization of Centers of Excellence</b> - Medical facilities that provide highly specialized health care services such as organ transplant services. Plans save costs by negotiating discounts with these facilities.	44%
<b>Utilization Review Vendor Audits</b> - Audits to verify the medical necessity and cost-effectiveness of health services provided to members.	28%
<b>Employee Self-Audits</b> - Plan members review (audit) their own bills and receive cash awards for finding errors if the plan recovers excess costs and realizes savings.	25%
<b>Health Reimbursement Account (HRA)</b> - A specified benefit amount used to pay for medical expenses until the HRA funds are expended. Members are then responsible for costs until the high deductible is met. Unused funds roll over each year creating an incentive to seek out cost-effective health services.	6%

<sup>1</sup> Claims Payer Audits, Hospital Bill Audits and Utilization Review Audits are conducted for PPO and Indemnity Claims payment but are not conducted on Self-insured HMO claims payments.

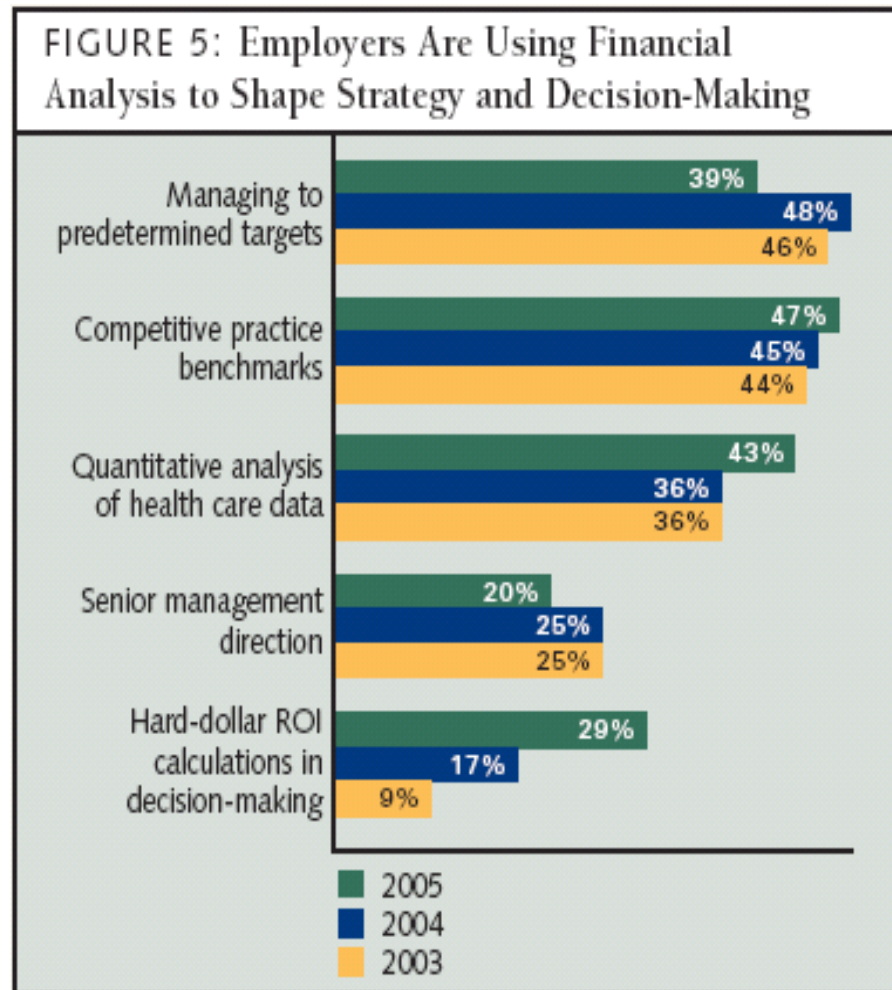
<sup>2</sup> Part of Consumer Driven Health Plan Pilot Project.

Source: 2003 Segal State Health Benefits Survey and SHBP Records

# Employer Strategies

- Consolidate Medical Plan Options
- Revise Contribution Strategy
- Revise Plan Provisions
- Improve Pharmacy Management
- High Deductible Plan with HRA/HAS
- Consumerism
- Drive Population Health Improvement through Incentives and Targeted Programs - Targeted and Improved Care Management
- Consider Potential Cost Advantages through Vendors
  - Discounts
  - Service Offerings

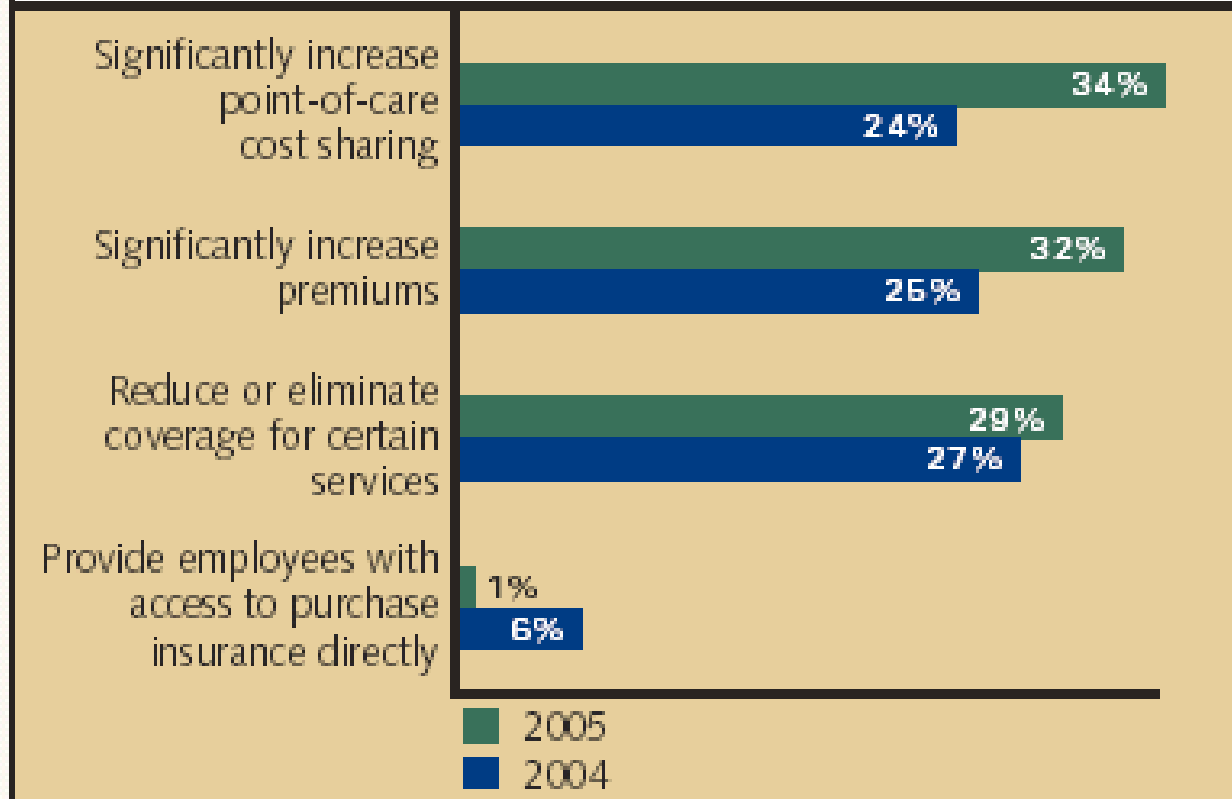
# Employer Strategies – Financial Focus



Source: Managing Health Care Costs in a New Era, 10<sup>th</sup> Annual National Business Group on Health / Watson Wyatt Survey Report 2005

# Employer Strategies – Financial Focus

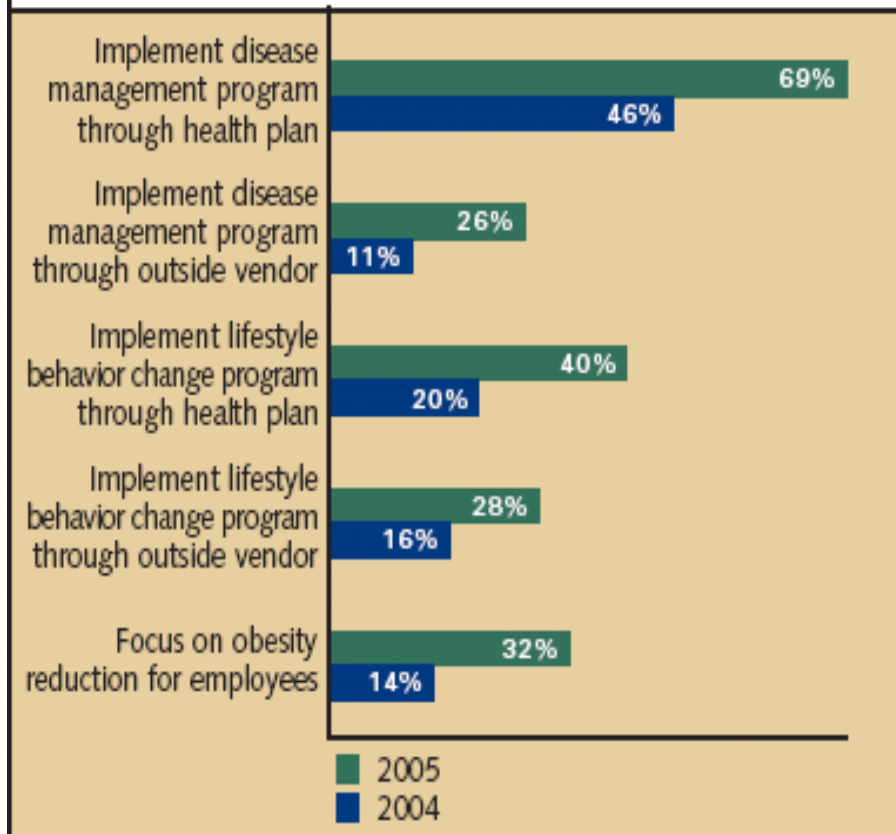
FIGURE 6: Employers Are Using Financial Tactics to Manage Costs



Source: Managing Health Care Costs in a New Era, 10<sup>th</sup> Annual National Business Group on Health / Watson Wyatt Survey Report 2005

# Employer Strategies – Health and Behavior

**FIGURE 16: Employers Are Increasing Use of Health Management Programs**



**FIGURE 17: Employers Offer Incentives to Encourage Behavior Change**

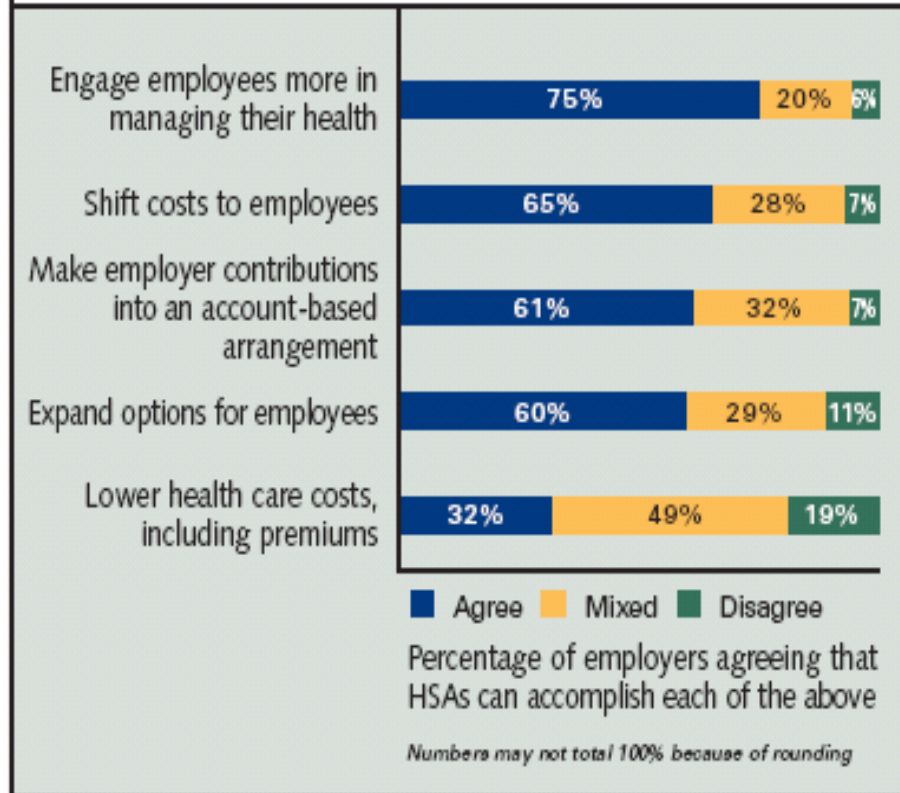
Provide incentives to encourage employees to:	Most frequently used incentives by those employers encouraging each activity		
Complete a health risk appraisal	Gifts or discounts 60%	Premium differences 21%	Flex dollars 13%
Use lower-cost providers	Copay differences 79%	Premium differences 38%	Flex credits 11%
Improve their personal health	Gifts or discounts 57%	Premium differences 22%	Flex dollars 15%
Use health care services differently or more appropriately	Copay differences 56%	Cash in an HSA or HRA 23%	Premium differences 20%
Use higher-quality providers	Copay differences 64%	Premium differences 52%	Flex credits 18%

Source: Managing Health Care Costs in a New Era, 10<sup>th</sup> Annual National Business Group on Health / Watson Wyatt Survey Report 2005

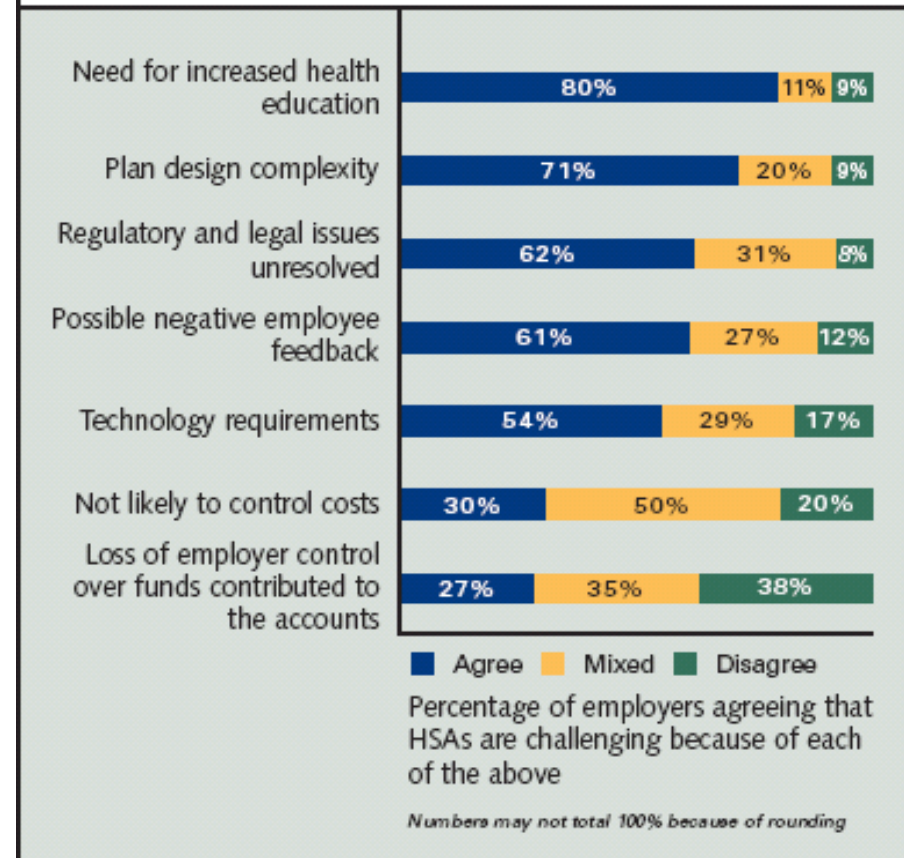


# Employer Strategies – Savings Accounts

**FIGURE 11: Employers Believe HSAs Can Engage Employees in Managing Their Health**



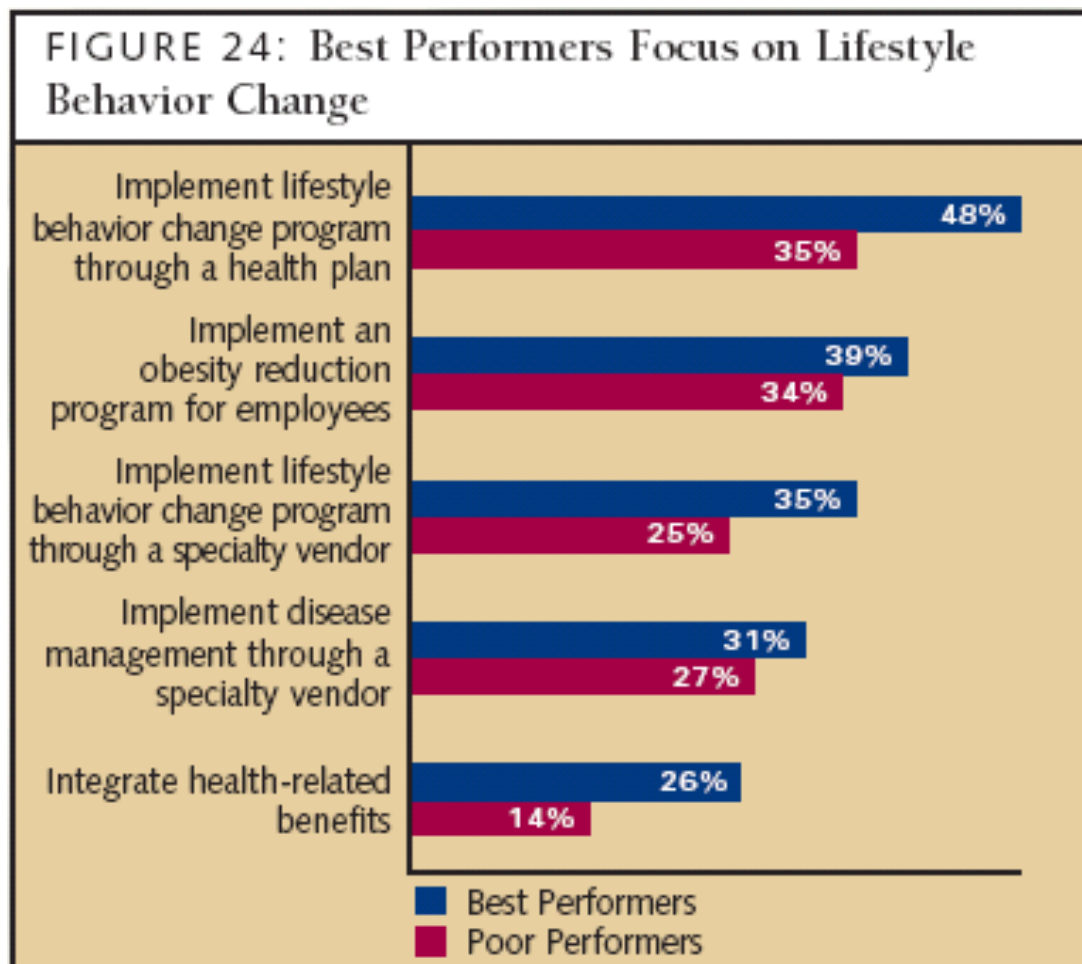
**FIGURE 12: Employers Recognize HSA Challenges**



Source: Managing Health Care Costs in a New Era, 10<sup>th</sup> Annual National Business Group on Health / Watson Wyatt Survey Report 2005



# Employer Strategies – One Area of Focus For “Best Performers”



Source: Managing Health Care Costs in a New Era, 10<sup>th</sup> Annual National Business Group on Health / Watson Wyatt Survey Report 2005

# Employer Strategies – Example of Lifestyle Focus

Corporation	Program Components	Incentive Programs	Participation Rate
Company A	HRA + risk and disease management programs	\$60-\$84/employee for HRA as insurance credit \$180-\$288 family for HRA as insurance credit depending on which plan chosen	Cumulatively (2 years) 70% Employees
Company B	HRA + 5 activities	\$200 health credit payment for HRA +3 activities. \$300 health credit payment for HRA + 5 activities	50% each year and 83% after 3 years
Company C	Web or mailed HRA, telephonic high risk interventions, disease management	\$25 cash	68%/year
Company D	Mandatory screening and HRA for enrollment into preferred Benefits (low cost) plan.	Enrollment eligibility for preferred health plan.	90%

# Employer Strategies – The Role of Consumerism

## Goals

- Expand patient ability to make informed health decisions
  - Incent personalized judgment of costs and benefits of spectrum of health and healthcare choices
  - Enable exploration of issues, Accommodate values and beliefs that influence behaviors and decisions
  - More appropriate and less costly care
- Consumers who have information change behavior
    - *27% change treatment plans*
    - *22% change providers*
    - *10% discontinued unnecessary treatments*
    - *5% identified incorrect diagnosis*

Source: Consumer's Medical Resource